

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO INTRALATA TOLL)	
COMPETITION, AN APPROPRIATE)	ADMINISTRATIVE
COMPENSATION SCHEME FOR COMPLETION)	CASE NO. 323
OF INTRALATA CALLS BY INTEREXCHANGE)	PHASE I
CARRIERS, AND WATS JURISDICTIONALITY)	

O R D E R

IT IS ORDERED that all parties shall file the original and 12 copies of the following information with the Commission, with a copy to all parties of record, by September 22, 1989. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. If the information cannot be provided by this date, each party should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

ALL LOCAL EXCHANGE CARRIERS

1. Describe your technical capability to allow customers to presubscribe to different carriers for their intraLATA and interLATA calling. Describe current capabilities and provide an

estimate of the cost of upgrading equal access end offices to provide this function.

2. Do you anticipate any stranded investment if intraLATA competition is introduced?

ALL INTEREXCHANGE CARRIERS

1. For each step in Appendix C of the Joint Motion, identify the specific service that would be offered by product name.

ALL SIGNATORIES OF THE JOINT MOTION

1. Footnote 3 of Appendix A of the Joint Motion states that "GTE believes that IXC leases need to be addressed to determine proper disposition in this plan." Do any local exchange carriers other than GTE South have leasing agreements similar to the leases referred to in this footnote? If so, indicate whether or not these leasing agreements should receive special treatment, and explain why.

2. On page 5 of the Joint Motion, postulate 6 of the plan development indicates that traffic sensitive rates may be changed in future years by mirroring interstate rates or by supporting proposed changes by an intrastate specific cost study. Under the terms of the Joint Motion, indicate whether the filing of a cost study would:

a. Establish a new access revenue requirement for both traffic sensitive and non-traffic sensitive costs.

b. Establish a new access revenue requirement for traffic sensitive costs only, while maintaining overall access revenue requirement neutrality. That is, non-traffic sensitive

rates and revenue requirements would be altered only to balance the change in traffic sensitive rates.

c. Establish a new access revenue requirement for traffic sensitive costs only, to replace the previous revenue requirement while non-traffic sensitive rates and revenue requirements would be unaffected.

3. Appendix C to the Joint Motion is a schedule of intraLATA competition. Clarify the schedule with respect to WATS and 800 services. For example, it appears that WATS-type services of some carriers can be accessed using the types of access listed in Phase I. If this is the case, would state-wide WATS be authorized under Phase I? Furthermore, is intraLATA competition allowed in Phase I for the NXX system of 800 access, whereas competition for the database system of 800 access is delayed until Phase II?

4. The footnote on page 2 of the schedule defines intraLATA private line services as private line services which originate and terminate within the LATA and are not used as a part of an interLATA network and are used to make only intraLATA customer connections. Under the terms of the Joint Motion, explain what services would be permissible to use in connection with an interLATA network and how this would be enforced. Explain what purpose this restriction serves if intraLATA competition is approved.

5. The schedule allows interexchange carriers to provide intraLATA private line services and statewide WATS and 800

services six months after Phase I. What is the purpose of the 6-month delay?

ATTORNEY GENERAL

1. Does the AG support intraLATA competition? Give reasons for position taken.

2. On page 7 of your direct testimony, you state that "The market for intraLATA service lies somewhere between these two; it has some of the characteristics of each." Identify these characteristics.

3. On page 8 of your direct testimony, you state that "Some of the potential benefits of competition may already have been achieved." Identify these benefits.

4. What is your opinion of the basic building block theory described in Nina Cornell's direct testimony on pages 14 through 23?

SOUTH CENTRAL BELL TELEPHONE COMPANY

1. On page 15 of Dr. Marvin H. Kahn's direct testimony, he concluded that SCB's rate structure appears to be subsidy free. State your reasons for disagreement and contrast them with Dr. Kahn's arguments.

2. On pages 10 through 14 of Brooks Albert's supplemental testimony, he argues that the introduction of intraLATA competition will not lead directly to increases in local service rates. How would SCB respond to his analysis?

3. On page 9 of his testimony, Dr. Kahn gives reasons to support his conclusion that it is unlikely that the opening of entry into this market will significantly affect the ability of

the LECs to recover their revenue requirements. Give your reasons for disagreement and support your position.

4. On pages 9 through 11 of his testimony, Dr. Kahn gives his reasons for concluding that LECs are likely to retain a dominant share of the market for intraLATA toll services. Give your reasons for disagreement and support your position.

5. On pages 15 through 23 of his direct testimony, Dr. Kahn presents his reasons for concluding that toll rates do not subsidize local rates as SCB alleges. How would you refute his arguments?

6. On page 5 of Don Wood's supplemental testimony, he concludes that intrastate access is more profitable for SCB than intraLATA toll. Do you agree or disagree? Give reasons for position taken and provide any supporting study or empirical evidence.

7. On pages 38 through 44 of Ben Johnson's supplemental testimony, he describes the competitive advantages enjoyed by SCB and concludes SCB should be designated a dominant carrier. Give your reasons for disagreement and support your position.

8. Provide a map of all SCB transmission facilities either planned or under construction in Kentucky which could be used by SCB to complete interLATA calls if SCB was authorized to compete in the interLATA market. Indicate the type of facility, i.e., fiber optics, microwave, copper wire, etc., and the planned capacity of the facility.

Questions for E. Blair Mohon

1. On page 4 of your supplemental testimony, you state that "The statement that South Central Bell made in 1984 that unequal competition would benefit interexchange carriers to the detriment of local subscribers appears to be much closer to reality than we would have guessed it to be." Provide the data that supports this statement. Distinguish between business subscribers and residential subscribers.

2. How has the amount of intraLATA competition introduced since 1984 affected South Central Bell's ("SCB") earnings?

3. On page 5 of your supplemental testimony, you state that "The Commission must recognize the revenue impact of the actions it already has taken and must further recognize that the Local Exchange Carriers must be given some form of more balanced regulation prior to authorization of any further competition." Does SCB consider the Incentive Regulation Plan approved in Case No. 10105¹ a form of more balanced regulation? Why or why not?

4. On page 6 of your supplemental testimony, you state that "It is abundantly clear that our major current and potential competitors seek to confront us in the regulatory arena rather than the customer arena." Describe the marketing efforts of current and potential competitors and any effect on SCB in the customer arena. Compare these efforts with those in the regulatory arena.

¹ Case No. 10105, Investigation of the Kentucky Intrastate Rates of South Central Bell Telephone Company.

5. On page 6 of your supplemental testimony, you state that "Major national lobbying efforts are made to constrain the BOCs within the LATA and in opposition to any major relief from MFJ restrictions." Has SCB considered requesting a waiver of any MFJ restrictions that restrict SCB from interLATA competition? Why or why not?

6. On page 6 of your supplemental testimony, you state "Some [competitors] have even indulged in self congratulatory claims of entrepreneurial innovation when toll volumes rise due to price reductions triggered by reduced access charges from local exchange companies." Provide the data that support this statement.

7. On page 8 of your supplemental testimony, you state that "SCB would propose that this rate restructure be completed through gradual steps over a multi-year period prior to any further authorization of intraLATA competition." How many years would be required to implement the rate restructure referred to in this statement? How would this rate restructure be integrated into the Incentive Regulation Plan? Provide steps and timing for implementation of your plan.

8. On page 8 of your testimony, you state that "A level playing field would also require that SCB be given reduced regulation comparable to that imposed on its competitors." Does the Incentive Regulation Plan constitute reduced regulation? Why or why not?

9. On page 9 of your testimony, you state that "To date, Commission action has permitted encroachment on one aspect of the

traditional role of local telephone utilities by allowing other less regulated service providers to offer services which are substitutes for local telephone company offerings." Do these substitutes require connection to the local loop? If yes, how are these services true substitutes for local telephone company offerings?

10. On page 10 of your supplemental testimony, you state that "If the current practice of permitting competition without addressing the other facets of the local telephone utility's role is continued, the eventual result will be a weakening of the universal service we have traditionally provided." Are programs like Link-Up Kentucky and Lifeline assistance effective methods of promoting universal service? Do they offset the impact on universal service of the changing role of LECs?

Questions for Margaret K. Thompson

1. On page 5 of your testimony, you state that "Based on the methodologies used, the assumptions made and areas which were non-quantifiable, this number (\$10.1M) is a conservative estimate of the impact of competitive services available in Kentucky." Discuss the benefits that have accrued to end-users as a result of the competitive services available in Kentucky. Do these benefits offset the revenue impact on SCB? Why or why not?

2. On page 5 of your testimony, you state that "The previously mentioned services (IXCs) have been introduced since 1986." How have SCB's rates changed since 1986? Present a chart summarizing rate changes since 1986. If the rates have stayed the

same or decreased, how has SCB absorbed the revenue impacts described in your testimony?

3. On page 6 of your testimony, you describe a Kentucky intraLATA toll contribution study which has been performed. On page 7 of your testimony, you identify the major inputs used in the study. Provide copies of these major inputs and all assumptions that were used in their development.

4. On page 8 of your testimony, you refer to the results of the intraLATA toll contribution study. Provide a copy of the study in its entirety.

5. On page 8 of your testimony, you state that through the study, customers strongly indicated they preferred the convenience and simplicity of having one long distance carrier. Was a survey or any marketing study of customers conducted to obtain this information? If yes, provide the results of the survey and the statistical accuracy of the survey. If no, what was the source of this information?

6. On page 9 of your testimony, you state that "The contribution loss will no doubt be even greater when the IXC's provide us with their plans, at which time the additional short term costs associated with facility based competition can be quantified." Identify the cost categories you are referring to in this statement.

7. Provide all assumptions and calculations used in developing Exhibit 14 of your testimony.

8. What is your opinion of the basic building block theory described in Nina Cornell's direct testimony on pages 14 through 23?

Questions for Joan Mezzell

1. On page 8 of your supplemental testimony, you state that "The increase in usage will require SCB to expand network capacity thus increasing the cost of doing business." Identify those aspects of the network that will require expansion beyond existing levels.

2. On page 11 of your supplemental testimony, you state that "An examination of the percent development of usage sensitive services in these regions demonstrates the most likely reasons why few restrictions were proposed in their ONA filing." Provide the rationale for this statement.

US SPRINT

Questions for Brooks Albert

1. On page 7 of your testimony, you state that "US Sprint believes that an access discount to reflect the inferior grade of service that 10XXX access represents is appropriate." Provide the economic justification for an access discount.

2. Define and explain imputation of access charges in the context of your supplemental testimony on page 7.

3. On page 9 of your supplemental testimony, you state that Sprint favors strict regulatory control of access services to account for and control these LEC market advantages. Provide examples of the type of regulatory control that will be needed.

4. What is your opinion of the basic building block theory described in Nina Cornell's direct testimony on pages 14 through 23?

GTE SOUTH INCORPORATED

1. Footnote 3 of Appendix A of the Joint Motion states that "GTE believes that IXC leases need to be addressed to determine proper disposition in this plan."

a. What does GTE South believe to be the proper disposition of the interexchange carrier leases?

b. Does this differ from the way the plan treats private line and special access revenues and/or revenue requirements? If so, why should these leases receive special treatment?

MCI TELECOMMUNICATIONS CORPORATION

1. On page 14 of the testimony of Don Wood, Mr. Wood alleges that SCB is presently constructing a large, high capacity fiber optic interLATA network. Provide any available substantiating evidence for this allegation.

AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC.

Questions for D. M. Ballard

1. On pages 5 through 7 of your testimony, you identify various factors to illustrate that long run sustainable competition exists in the interstate and Kentucky intrastate interLATA telecommunications markets. Do you have market share data on the companies providing interstate and intrastate interLATA services? If yes, provide. Does this data support or

contradict your conclusion about the existence of a competitive market. Why or why not?

Questions for David L. Kaserman

1. On page 10 of your supplemental testimony, you state that AT&T continues to hold a large market share in the relatively unprofitable areas of the state. Provide data that establish these areas of the state are unprofitable for AT&T.

2. Is AT&T's investment in these unprofitable areas considered sunk cost? If yes, doesn't that mean any traffic from these areas contributes to profit?

3. On page 10 of your supplemental testimony, you discuss the "perverse incentives" that occur when regulatory reforms are predicated upon overall market share figures. Cite examples in Kentucky or in other states where the consequences of these perverse incentives have occurred.

4. On page 18 of your supplemental testimony, you state that the comparatively high revenue market share that AT&T "enjoys" in the residential portion of the market is due to the presence of cross-subsidies fostered by regulation. Identify the cross-subsidies referred to in this statement and describe how they are fostered by regulation.

5. On page 18 of your supplemental testimony, you state that AT&T's overall market share is distorted by current regulatory policies and should not be afforded undue weight in assessing the intensity of competition. Identify the regulatory policies referred to and describe how they distort market share information.

6. On page 21 of your supplemental testimony, you state that an established customer base may be acquired by a reseller and later used to support the investment expense of becoming a facility-based carrier. Provide examples of companies that have used this approach.

7. Define imputation as used in your testimony on page 29.

8. Define monopoly leveraging as used in your testimony on page 29.

9. Is your recommendation on imputation of costs similar to Dr. Nina Cornell's discussion of the basic building block theory? If yes, describe the similarities. If no, describe the differences.

10. On pages 34 through 37 of your testimony, you discuss the empirical results of studies of the impact of intraLATA competition. Although the conclusions of these studies indicate there are not any adverse impacts from the introduction of intraLATA competition, would you agree that the body of literature in this area is small and may not be conclusive?

Questions for Charles Buechel

1. Provide a diagram of the flow of information from Maritz to AT&T.

2. On page 3 of your testimony, you state that "one of the primary purposes of having AT&T employees on site is for them to serve as the liaison between TRAC and the client, since Maritz never communicates directly with the client." Are you distinguishing between AT&T's headquarters employees and AT&T's Kentucky employees? Do AT&T employees at Maritz communicate only

with AT&T TRAC employees? Do the TRAC employees then communicate with AT&T's Kentucky employees?

Questions for Neil E. Brown

1. What is the statistical significance of the survey described in your testimony?

2. On page 2 of your supplemental testimony, you state that "the purpose of the survey is to determine the extent to which competition exists in the long distance service market in Kentucky." Is it possible to analyze the survey results on an interLATA versus intraLATA basis? If yes, provide the disaggregated information. If no, what conclusions can be drawn from the survey about intraLATA competition?

3. On page 5 of your supplemental testimony, you state that 2 out of 3 customers respond "AT&T" when asked to name the long distance carrier that comes to mind first. Information presented on page 7 of your supplemental testimony leads to the conclusion that 84 percent of the residential respondents name AT&T when asked to name the long distance company that comes to mind first. Do these numbers indicate greater name recognition for AT&T? Does this give AT&T a competitive advantage? Why or why not?

4. How would you distinguish customer awareness of competitive alternatives from the existence of a competitive market?

TELCOR, et al.

Questions for Ben Johnson

1. On page 6 of your supplemental testimony, you state that "lack of regulatory oversight in the intraLATA market could reduce

the Commission's ability to effectively regulate AT&T in the interLATA market." Provide an explanation for this statement.

2. On page 6 of your supplemental testimony, you state that until greater experience is gained, it would be appropriate to apply dominant carrier regulations to AT&T in the intraLATA environment as well. How would you address the arguments of Dr. Kaserman on pages 16 through 18.

3. On page 12 of your supplemental testimony, you identify as one of the goals the Commission should pursue the promotion of inter-customer equity. Define this term in the context of utility regulation.

4. What is your opinion of the basic building block theory described in Nina Cornell's direct testimony on pages 14 through 23?

Done at Frankfort, Kentucky, this 8th day of September, 1989.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director